ORIGINAL FILE

RECEIVED

SEP 2 8 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation	CC Docket No. 92-135

REPLY COMMENTS OF
RONAN TELEPHONE COMPANY

Ronan Telephone Company, pursuant to Section 1.415(c) of the Commission's rules, hereby submits this reply to comments filed on or about August 28, 1992, in response to the Notice of Proposed Rulemaking in the above-captioned proceeding.[1]

I. Introduction

Ronan Telephone Company is a small average schedule company serving 2,500 access lines on the Flathead Indian Reservation in Western Montana. In its comments filed in this proceeding, Ronan Telephone Company recommended optional incentive plan regulation for subset three average schedule companies designed to bring the benefits gained from incentive regulation to ratepayers and carriers serving rural America. Ronan Telephone Company urges the Commission to consider regulatory reform that promotes the universal provision of modern telecommunications services without sacrificing the incentives for efficient operation that, similar to

No. of Copies rec'd 0+9
List A B C D E

[1] In re Regulatory Reform for Local Exchange Carriers Subject to Rate of Regulation, Notice of Proposed Rulemaking, CC Docket No. 92-135, 7 FCC Rcd 5023 (released July 17, 1992).

the price cap system, are inherent in the current average schedule mechanism. Ronan Telephone Company, like many average schedule companies, faces the perverse possibility that the only way to raise the capital necessary to provide state of the art telecommunications to our rural communities into the next century is to convert to individual cost status at a time when the Commission seeks to encourage carriers to adopt an incentive regulatory plan.

II. Regulatory Reform is Urgently Needed to Ensure that Small, Rural Local Exchange Carriers Receive the Funds Needed to Modernize Their Telecommunications Networks

As a company that has always utilized average schedule settlements, Ronan Telephone Company has always been forced to remain efficient to ensure that its costs remain within the revenue parameters defined by the average schedule formulas. During the mid 1970s, the rural areas served by Ronan Telephone Company were upgraded from 1940s vintage switching equipment and 8-party service on open wire plant, to stored program controlled switching equipment and 2-party service provided with loaded copper cable facilities. This upgrade period required Ronan Telephone Company to borrow to its credit limit and this limit, which was dependent on the revenues derived from average schedule formulas and traffic volumes at the time, prevented Ronan Telephone Company from immediately providing rural single party service. Since this upgrade to 2-party service was completed, Ronan Telephone Company has extended single party service to 70% of its customers and has just completed the installation of the first phase of a digital switching and transmission network that will provide the basis for providing urban quality single party service to subscribers in Ronan Telephone Company's most scarcely populated rural areas.

Ronan Telephone Company has chosen to remain an average schedule company for several reasons. A primary reason is the one-way door from average schedule status to cost of service status that has generally prevailed to date. The other primary reason is a philosophical bias against the incentives, administrative costs and complications of the individual cost of service rules. Ronan Telephone Company is concerned that the NECA pools could eventually become an unacceptable liability to a majority of the participating companies and then fail to provide needed revenues to companies that are dependent on the pools. Because of this choice to remain on average schedules and operate our company as efficiently as possible, Ronan Telephone Company has never received a dime in universal service fund support, even though its rural service territory is precisely the kind of area that the fund was created to assist.

In retrospect, Ronan Telephone Company feels it, and many other similar small rural average schedule companies, have been penalized for their efficiency in operating their companies within the limits of the average schedule revenues, rather than convert to cost of service status and operate their companies in a manner that would be more likely to qualify them for universal service fund support. Ronan Telephone Company and companies like it need viable options in addition to the full NECA pool participation that most utilize today. The proposed rules in this docket will not create options that are viable for most small rural independent companies, unless modified to incorporate the recommendations described in Ronan Telephone Company's initial comments in this proceeding.

The National Association of Regulatory Utility Commissioners filed comments in this proceeding alleging that "technological improvements, reductions in capital costs, corporate reorganizations, and other developments in recent years have substantially reduced annual operating expenses for telephone companies and are likely to continue to do so."[2] Ronan Telephone Company strongly disagrees. Due to limitations on its capital resources imposed by the average schedules, Ronan Telephone Company has yet to bring one party telephone service to the most thinly populated portions of its service territory. These rural subscribers want the same modern telecommunications services available in metropolitan areas. Ronan Telephone Company is currently finalizing plans to upgrade a portion of its copper transmission facilities with fiber optic cable and remote digital switch line units. Capital costs and annual operating expenses have increased substantially for Ronan Telephone Company and other rural local exchange carriers that are upgrading their networks and are likely to continue to do so as this infrastructure is upgraded.

In its comments, Ronan Telephone Company demonstrated that the optional incentive plan regulation proposed by the Commission should be modified to avoid a further strain on the limited resources available to small local exchange carriers to upgrade their networks.[3] First, current regulations would force small

---

[2] Initial Comments of the National Association of Regulatory Utility Commissioners at 5.

[3] Comments of Ronan Telephone Company at 5.

independent local exchange carriers electing incentive regulation to make long term support payments to the National Exchange Carrier Association, Inc.'s (NECA's) common line pool. Second, Section 69.612(b) of the Commission's rules would deny long-term support payments to small independent local exchange carriers that leave NECA's carrier common line pool to file their own access tariffs.

NECA, the United States Telephone Association (USTA), and the National Telephone Cooperative Association (NTCA) filed comments arguing that the Commission should require any local exchange carrier leaving NECA's carrier common line pool to pay long term support.[4] Furthermore, NECA, USTA and NTCA contended that such local exchange carriers that reenter NECA's carrier common line pool should also continue to pay long-term support.[5] These proposals would further undermine Ronan Telephone Company's efforts to upgrade its network if it were to choose to participate in an incentive regulation option, and would deplete the construction funds of small local exchange carriers that leave the carrier common line pool to file their own interstate access tariffs.

Ronan Telephone Company firmly believes that a national Universal Service Fund and long term support are critical to rural development. However, the capital constraints faced by Ronan Telephone Company is a prime example of why regulatory reform is urgently needed to achieve the Commission's universal service objectives. Universal service must be redefined to ensure that the

---

4 Comments of NECA at 14; Comments of USTA at 26; and Comments of NTCA at 10.

5 Id.

gap in network modernization between large cities and rural America does not continue to widen.

To determine eligibility to receive Universal Service Fund payments and long-term support, Ronan Telephone Company recommends that the Commission place greater reliance on the lack of density and usage in a service territory. The Commission developed such payments to support isolated communities exactly like the rural service area where Ronan Telephone Company operates, yet Ronan Telephone Company receives no Universal Service Fund payments. Ronan Telephone Company provides local exchange service in an area 9 miles by 17 miles. Within that geographic area there are two towns with populations of 1,500 and 500-600 persons respectively. Other telephone subscribers are scattered throughout the rest of this rural community.

In addition to receiving such Universal Service Funds, small local exchange carriers should be permitted a higher authorized rate of return to reflect the greater risks associated with providing service to rural areas with a very small subscriber base. The Bell Operating Companies (BOCs) are permitted to earn a rate of return of 13.25% under price cap regulation without sharing excess earnings with interexchange carriers. However, the risk of investing in a small independent local exchange carrier, such as Ronan Telephone Company, is far greater than investing in the shares of a BOC trading on the New York Stock Exchange. The loss of a large customer, such as the relocation of a business or factory, can be devastating to a small, rural local exchange carrier. Bypass by a large customer can have a similar impact.

III. The Commission Should Eliminate Barriers that Will Impede the Achievement of Regulatory Reform for Small Local Exchange Carriers in this Proceeding

State policies, such as residual ratemaking, could effectively undermine any regulatory reform adopted by the Commission in this proceeding. A majority of the revenue earned by most local exchange carriers is derived from the state jurisdiction. Unless similar regulatory reform is adopted by state regulators, the benefits gained from any form of incentive regulation adopted by the Commission could be severely impaired or diluted.

In a Responsible Accounting Officer letter dated August 21, 1991, the Commission stated that the direct assignment of interstate costs is not permitted unless specifically authorized by the FCC's regulations or orders. GVNW, Inc./Management (GVNW) filed comments in this proceeding asking the Commission's authorization to directly assign to the interstate jurisdiction the outside expenses incurred by a local exchange carrier which chooses to file its own interstate access tariff either utilizing the proposed incentive plan, the Section 61.39 small company streamlined tariff rules, or the traditional Section 61.38 tariff regulations.[6] FCC filing fees, legal fees, consultant fees, outside accountant fees and the additional internal costs of administration should be eligible for such direct assignment to the interstate jurisdiction.

Ronan Telephone Company agrees with GVNW that such costs are a significant barrier for local exchange carriers that want to file their own interstate access tariffs. Ronan Telephone Company is

---

6 Comments of GVNW at 3.

one of the two average schedule companies that filed its own interstate access tariff based on historical average schedule settlements pursuant to Section 61.39 of the Commission's rules. Ronan Telephone Company recommends that the Commission permit average schedule companies to recover such costs through their interstate access charges if they file their own interstate access tariffs. Adoption of this proposal would prevent the further depletion of revenue received from interstate access charges that are based on average schedule settlements.

IV. Conclusion

Ronan Telephone Company welcomes this initiative by the Commission to consider regulatory reform that recognizes the unique circumstances facing small independent local exchange carriers serving rural communities. There is an urgent need for a regulatory framework that provides rural local exchange carriers with the funds they need to modernize their networks and simultaneously provide incentives to operate these networks as efficiently as possible. These two goals are not conceptually mutually exclusive and should not be considered to be so. Such realignment of the Commission's universal service policies should permit local exchange carriers to retain the operating efficiencies that they have achieved while operating under average schedule based settlements. Furthermore, Ronan Telephone Company urges the Commission to eliminate barriers that will severely impede regulatory reform in this proceeding.

WHEREFORE, Ronan Telephone Company respectfully requests that the Commission adopt the modifications to its proposed regulatory reform for small independent local exchange carriers as described herein.

Respectfully submitted,

RONAN TELEPHONE COMPANY

By: Jay Wilson Preston

Jay Wilson Preston
President
Ronan Telephone Company
312 Main Street, S.W.
Ronan, Montana 59864

September 28, 1992

JUT-038

CERTIFICATE OF SERVICE

I, Brenda D. Falk, do hereby certify that true and correct copies of the foregoing Reply Comments were served by first-class, U.S. mail, postage prepaid, this 28th day of September 1992, to the persons on the attached service list.

Brenda D. Falk

Brenda D. Falk

SERVICE LIST

Chairman Alfred C. Sikes
Federal Communications Commission
1919 M St., N.W., Room 814
Washington, D.C. 20554

Commissioner James H. Quello
Federal Communications Commission
1919 M St., N.W., Room 802
Washington, D.C. 20554

Commissioner Sherrie P. Marshall
Federal Communications Commission
1919 M St., N.W., Room 826
Washington, D.C. 20554

Commissioner Andrew C. Barrett
Federal Communications Commission
1919 M St., N.W., Room 844
Washington, D.C. 20554

Commissioner Ervin S. Duggan
Federal Communications Commission
1919 M St., N.W., Room 832
Washington, D.C. 20554

Cheryl A. Tritt, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Gregory J. Vogt, Chief
Tariff Division, CCB
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Colleen Boothby, Deputy Chief
Tariff Division
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

James D. Schlichting, Chief
Policy & Program Planning Division
Federal Communications Commission
1919 M Street, N.W., Room 544
Washington, D.C. 20554

Judith Nitsche, Chief
Tariff Review Branch
Federal Communications
Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Andrew Mulitz
Tariff Division
Federal Communications
Commission
1919 M Street, N.W., Room 531
Washington, D.C. 20554

Downtown Copy Center
1919 M Street, N.W., Room 246
Washington, D.C. 20554

Lawrence P. Keller
Cathey, Hutton & Assoc., Inc.
3300 Holcomb Bridge Rd.
Suite 286
Norcross, GA 30992

Martin T. McCue
United State Telephone Assn.
900 19th St., N.W., Suite 800
Washington, D.C. 20006

Edwin H. Eichler, President
[Ind. Telephone Access Group]
7585 W. Pigeon Road
Pigeon, MI 48755

Robert A. Mazer
[Lincoln Telephone & Telegraph]
Nixon, Hargrave, Devans & Doyle
One Thomas Circle, N.W.
Suite 800
Washington, D.C. 20005

Carol F. Sulkes
Vice President - Reg. Policy
Central Telephone Company
8745 Higgins Road
Chicago, IL 60631

Theodore D. Frank
Vonya D. McCann
[Central Telephone Company]
Arent, Fox, Kintner,
Plotkin & Kahn
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339

Thomas J. Moorman, General Counsel
Regulatory and Industry Affairs
John Staurulakis, Inc.
6315 Seabrook Road
Seabrook, MD 20706

Gregory J. Darnell
Manager, Regulatory Analysis
MCI Telecommunications Corp.
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Thomas P. Kerester
Barry Pineles
Office of Advocacy
U.S. Small Business Assn.
409 3rd Street, S.W.
Washington, D.C. 20416

Marc A. Stone, Manager, Reg. Affairs
Fred Williamson & Associates, Inc.
2921 East 91st Street, Suite 200
Tulsa, OK 74137-3300

Donald E. Parrish
Parris & Associates
4612 Oleander Drive
Myrtle Beach, SC 29577

Paul Berman
[Puerto Rico Telephone Company]
Covington & Burling
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20044

Barbara J. Stonebraker
Cincinnati Bell Telephone
201 E. Fourth St., 102-300
P.O. Box 2301
Cincinnati, OH 45201

Carolyn C. Hill
ALLTEL Service Corporation
1710 Rhode Island Ave., N.W.
Suite 1000
Washington, D.C. 20036

David Cosson
L. Marie Guillory
National Telephone Cooperative
Assn.
2626 Pennsylvania Avenue, N.W.
Washington, D.C. 20037

Paul Rodgers
Charles D. Gray
James Bradford Ramsay
NARUC
1102 ICC Building
P.O. Box 684
Washington, D.C. 20044

Lisa Zaina, Gen. Counsel
OPASTCO
2000 K St., N.W., Suite 205
Washington, D.C. 20006

Francine J. Berry
David P. Condit
Sandra Williams Smith
AT&T
295 North Maple Avenue
Room 3244J1
Basking Ridge, NJ 07920

Linda Ackley, President
Taconic Telephone Corp.
Taconic Place
Chatham, NY 12037

Calvin K. Simshaw
PTI Communications
P.O. Box 9901
Vancouver, WA 98668-8701

Joanne S. Bochis
NECA
100 South Jefferson Road
Whippany, NJ 07981